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Message Text

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TAGS: EGEN, ECON

SUBJECT: OFFICE OF ECONOMIC POLICY WEEKLY STATUS REPORT,
APRIL 12, 1977

1. CIEC PREPARATIONS (CONFIDENTIAL)

SENIOR OFFICIALS OF THE G-8 MET IN PARIS ON APRIL 6 AND
HAD GENERAL EXCHANGE ON SUBSTANTIVE AND PROCEDURAL ISSUES
TO BE RESOLVED IN FINAL STAGE OF CIEC. DISCUSSION OF
ENERGY WAS BRIEF AND REVEALED CLOSE CONVERGENCE OF G-8
VIEWS. LENGTHY DISCUSSION OF RAW MATERIALS ISSUES REVEALED
CONTINUED DIFFERENCES BETWEEN U.S. AND EC ON COMMON FUND
AND SOME PESSIMISM REGARDING PROSPECTS FOR SATISFACTORY
CONCLUSIONS IN THIS AREA. ON TRANSFER OF RESOURCES AND
FINANCE, THERE WAS AGREEMENT THAT G-8 SHOULD NOT GO BEYOND
JOINT U.S.-EC PAPER ON FEATURES IN TREATING DEBT ISSUE BUT
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THAT MEANS OF ALLEVIATING DEFICIT FINANCING PROBLEM SHOULD
BE SOUGHT THROUGH CIEC AND ELSEWHERE. IN THIS CONNECTION,
EC PROPOSAL THAT G-8 COUNTRIES CONTRIBUTE TO QUOTE SPECIAL
ACTION FUND UNQUOTE FOR MSAS AND LDCS RECEIVED CONSIDERABLE
SUPPORT IN PRINCIPLE. ON PROCEDURAL ISSUES, GROUP AGREED
ON IMPORTANCE OF CLOSE G-8 COORDINATION IN CIEC'S FINAL
PHASE AND ON IMPORTANCE OF PROVIDING G-19 ADVANCE INDI-
CATIONS OF GENERAL NATURE OF FINAL PACKAGE.

FOLLOWING THE MEETING AND AFTER SOME FURTHER DEBATE AMONG

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G-8 MEMBERS IT NOW APPEARS THAT THE CANADIANS WILL BE TASKED TO CONTACT G-19 TO BRIEF THEM ON THE VIEWS OF THE G-8 ON HOW WE ENVISAGE THE OUTCOME OF CIEC. WE INTEND TO SUPPORT THE CANADIANS IN THIS APPROACH AND INSTRUCTIONS TO THE G-19 CAPITALS PLUS SOME KEY LDCS NOT MEMBERS OF G-19 WILL PROBABLY GO OUT EARLY NEXT WEEK AFTER THE PRESIDENTIAL DECISION ON CIEC ISSUES WHICH IS EXPECTED IN THE NEXT COUPLE OF DAYS.

2. LDC DEBT (LIMITED OFFICIAL USE)

GLOBAL CALCULATIONS INDICATE THAT THERE WILL BE NEED FOR ADDITIONAL OFFICIAL FINANCIAL FACILITIES BOTH FOR SOME DEVELOPED AND SOME DEVELOPING COUNTRIES IN THE NEXT FEW YEARS. PRIVATE BANKS ARE REASSESSING THEIR EXPOSURE IN LDCS AND IT IS DEEMED UNLIKELY THAT THEY WILL CONTINUE TO LEND AT THE LEVELS OF THE PAST TWO YEARS. THUS, FINANCING AVAILABLE THROUGH INTERNATIONAL INSTITUTIONS AND/OR BILATERAL AID WILL HAVE TO EXPAND SUBSTANTIALLY OR THE LDCS WILL HAVE TO REDUCE THEIR GROWTH RATE. HOWEVER, THE COUNTRIES OF THE EA REGION ARE RELATIVELY WELL OFF, ASIDE FROM THE PHILIPPINES, SHOULD HAVE NO PROBLEMS FINANCING THEIR DEBT. THE PHILIPPINES FACES NO IMMEDIATE PROBLEMS BUT WILL NOT BE ABLE TO CONTINUE BORROWING INDEFINITELY AT THEIR 1976 RATE.

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3. OECD SECGEN'S REPORT ON HIS U.S. VISIT -- CONCERN IN COUNCIL RE FINANCIAL SUPPORT FUND (LIMITED OFFICIAL USE)

SECGEN VAN LENNEP REPORTED TO THE OECD COUNCIL ON HIS TRIP TO THE U.S. THE MAIN THEME THAT EMERGED FROM HIS TALKS WAS THAT WHILE PROSPECTS FOR THE U.S. ECONOMY WERE GOOD THERE WAS NEED TO STRENGTHEN GENERAL CONFIDENCE IN ABILITY OF GOVERNMENTS TO CONTROL INFLATION AND PROMOTE GROWTH, AND THAT THIS IS PARTICULARLY TRUE IN EUROPE. IN ADDITION, HE SAID, FOUR POINTS OF INTEREST TO OECD STOOD OUT: A) U.S. OFFICIALS HAD STRESSED NEED FOR INTERNATIONAL ECONOMIC COORDINATION AND IMPORTANCE OF OECD IN THIS REGARD B) U.S.G. WAS DETERMINED TO IMPLEMENT A MORE EFFECTIVE ENERGY POLICY; C) THE U.S.G. WAS CONCERNED ABOUT GROWING DOMESTIC PROTECTIONIST PRESSURES; D) THE U.S.G. HAD NOT YET DETERMINED ITS POSITION ON NEW INTERNATIONAL FINANCING ARRANGEMENTS, INCLUDING DESIRABILITY OF FINANCIAL SUPPORT FUND (FSF). (NOTE: IN EFFECT U.S. SUPPORTS IMF MANAGING DIRECTOR WITTEVEEN'S EFFORTS TO ARRANGE FOR EXPANDED IMF FACILITIES BUT IF THOSE EFFORTS FAIL, U.S.G. WOULD GIVE FURTHER CONSIDERATION TO FSF.) IN SUBSEQUENT COUNCIL

DISCUSSION, SEVERAL DELS EXPRESSED CONCERN AT U.S. HESITATION ON FSF AND ONE DEL VOICED WORRY OVER POSSIBLE

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PROTECTIONISM IN U.S.

IN THIS CONNECTION, WITTEVEEN VISITED TOKYO TO DISCUSS EXPANDED IMF FACILITIES. IT SEEMS GOJ AGREED TO STUDY WITTEVEEN PROPOSAL BUT MOST REPORTS SUGGEST THAT GOJ IN MEETINGS WITH WITTEVEEN MADE GOJ SUPPORT CONDITIONAL ON ENHANCED JAPANESE VOICE IN IMF.

4. U.S. GOVERNMENT POLICY ON PRIVATE DIRECT INVESTMENT (CONFIDENTIAL)

AN INTERAGENCY MEETING THIS AFTERNOON AT TREASURY, WHICH CONFIDENTIAL

UNDER SECRETARY COOPER WILL ATTEND FROM STATE, WILL DISCUSS FUTURE U.S.G. POLICIES TOWARD PRIVATE DIRECT INVESTMENT. THE TREASURY PAPER APPROACHES THE QUESTION FROM THE POSITION OF A NEUTRAL POLICY STANCE WITH POSSIBLE EXCEPTIONS. WE HAVE ALERTED MR. COOPER TO THE IMPORTANCE WE ATTACH TO U.S. PRIVATE DIRECT INVESTMENT IN EAST ASIA AND PARTICULARLY TO ASEAN AND TO THE POLICY ISSUES OF OPIC'S FUTURE ROLE AND TAX DEFERRAL.

5. INTERNATIONAL FINANCIAL INSTITUTIONS AND THE CONGRESS: FUNDING LEVELS ASSURED BUT NEW HUMAN RIGHTS AND COMMODITIES LANGUAGE INTRODUCED (UNCLASSIFIED)

LAST WEEK THE HOUSE PASSED THE 5 BILLION DOLLARS AUTHORIZATION BILL FOR THE IFIS. THE ONLY MODIFICATION OF THE ADMINISTRATION'S REQUEST WAS A 150 MILLION DOLLARS CUT FOR THE AFRICAN DEVELOPMENT FUND. THE NEW LEGISLATION, HOWEVER, ALSO REQUIRES FOR THE FIRST TIME THAT THE U.S. INJECT HUMAN RIGHTS CONSIDERATIONS INTO IFI LOAN DECISIONS AND ALSO THAT THE U.S. VOTE AGAINST LOANS FOR PALM OIL, SUGAR OR CITRUS FRUIT PROJECTS. ELIMINATION OR MODIFICATION OF THESE PROVISIONS ARE EXPECTED THROUGH SENATE AND CONFERENCE ACTIONS.

IN A SEPARATE BUT RELATED DEVELOPMENT A HOUSE-SENATE CONFERENCE AGREED TO SUPPORT THE SENATE LEVEL OF 25 MILLION DOLLARS RATHER THAN THE 15 MILLION DOLLARS HOUSE FIGURE FOR THE ASIA DEVELOPMENT FUND IN OUR FY-77 SUPPLEMENTAL REQUEST. 25 MILLION DOLLARS WAS THE ADMINISTRATION'S REQUEST.

6. NON-ALIGNED CONFERENCE (LIMITED OFFICIAL USE)

THE DRAFT COMMUNIQUE OF THE NON-ALIGNED CONFERENCE IN NEW DELHI GIVES HEAVY EMPHASIS TO ECONOMIC MATTERS. THE

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ECONOMIC SECTION REVIEWS THE ECONOMIC SITUATION AND DEVELOPMENTS SINCE THE COLOMBO MEETING. IN PARTICULAR, THE DOCUMENT TAKES A MILDLY CONFRONTATIONAL TONE EXPRESSING QUOTE ITS SENSE OF DEEP DISAPPOINTMENT OVER THE LACK OF PROGRESS UNQUOTE AT CIEC AND CONCLUDING THAT FAILURE IN PARIS QUOTE MAY HAVE SERIOUS REPERCUSSIONS ON THE RELATIONS BETWEEN DEVELOPING AND DEVELOPED COUNTRIES UNQUOTE. THE DRAFT COMMUNIQUE DOES NOT PROPOSE ANY NEW SPECIFIC ACTIONS OR SOLUTIONS TO NORTH/SOUTH PROBLEMS, BUT RATHER REITERATES ENDORSEMENT OF EARLIER G-77 GOALS.

7. IFAD THIRD PREPARATORY COMMISSION MEETING CONCLUDES (UNCLASSIFIED)

ALTHOUGH THE THIRD PREPARATORY MEETING MADE PROGRESS ON SOME AGENDA ITEMS SUCH AS THE UN RELATIONSHIP AGREEMENT AND IFAD LENDING POLICIES, DELEGATES COULD NOT COME TO AGREEMENT ON PERMANENT SEAT OF THE ORGANIZATION. IN FACT, DISCUSSION WAS NOT EVEN ABLE TO PROCEED PAST THE QUESTION OF VOTING MODALITIES TO DECIDE THE SITE QUESTION. PERSONNEL QUESTIONS WILL ALSO HAVE TO BE DECIDED LATER.

8. SECTION 911 (LIMITED OFFICIAL USE)

IN LAST WEEK'S NOTES WE REPORTED THAT BOTH SENATE AND HOUSE HAVE AGREED TO ELIMINATE THE RETROACTIVITY IN LAST YEAR'S TAX BILL PERTAINING TO SECTION 911. WE WERE WRONG- IN AN UNEXPECTED INITIATIVE IN THE HOUSE WHICH WAS SUBJECTED TO UNANIMOUS CONSENT, THE ELIMINATION OF THE RETROACTIVITY WAS DEFEATED. THE FUTURE OF THIS ISSUE IS UNCERTAIN SINCE THE SENATE ACTION IS ATTACHED TO THE STIMULUS PACKAGE BILL WHICH ALSO FACES UNCERTAIN PROSPECTS.

IN A MEETING HELD TODAY STATE BEGAN THE PROCESS OF DEVELOPING A POSITION ON THE FUTURE OF SECTION 911. CONFIDENTIAL

INDICATIONS ARE THAT WE WILL MOVE IN THE DIRECTION OF FAVORING THE EXEMPTION OF CERTAIN ALLOWANCES, E.G. HOUSING ABOVE A CERTAIN LEVEL, COST OF LIVING, EDUCATION. THIS THEN RELATES CLOSELY TO THE EXEMPTION OF ALLOWANCES FOR GOVERNMENT EMPLOYEES SERVING OVERSEAS (SECTION 912) AND WE FORESEE A PROTRACTED PROCESS OF INTERAGENCY COORDINATION BEFORE U.S.G. WILL HAVE A UNIFIED VIEW.

9. JAPAN/ASEAN RELATIONS (CONFIDENTIAL)

JAPAN HAS AGREED TO PROVIDE 2 MILLION DOLLARS FOR THE CONSTRUCTION OF A TIRE DEVELOPMENT AND TESTING LABORATORY

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IN MALAYSIA. MALAYSIA CHOSE TO CALL THIS BILATERAL PRO-
JECT AN ASEAN PROJECT APPARENTLY IN AN ATTEMPT TO IMPART
QUOTE SUBSTANCE UNQUOTE TO THE ASEAN IMAGE AND TO REFLECT
THE QUOTE SUCCESS UNQUOTE OF THE RECENT ASEAN-JAPAN TALKS.

10. DEPARTMENT TO SEEK REMOVAL OF POLITICAL PORTIONS OF
P.L.-480 LEGISLATION PERTAINING TO VIETNAM (L-O-U)

THE DEPARTMENT HAS TOLD OMB THAT WE WISH TO ELIMINATE THE
POLITICAL PROVISIONS OF THE PRESENT P.L.-480 LAW
PERTAINING TO VIETNAM WHEN A NEW VERSION OF THE LEGISLA-
TION COMES BEFORE THE CONGRESS THIS YEAR. SPECIFICALLY.
WE WILL SEEK ELIMINATION OF THE PROVISIONS PROHIBITING
U.S.G. FINANCING TO ANY AGRICULTURAL EXPORTER WHO TRADES
WITH VIETNAM AND PROHIBITING ANY P.L.-480 PROGRAM TO
VIETNAM ITSELF. WE WOULD MAINTAIN THE SECTION BANNING
P.L.-480 AID TO COMMUNIST COUNTRIES IN GENERAL AS SOME
WOULD INTERPRET A MOVE TO DROP THIS LANGUAGE AS A NEW
ADMINISTRATION INITIATIVE ON EAST/WEST MATTERS. THIS
SECTION IS, IN ANY CASE, SUBJECT TO A PRESIDENTIAL WAIVER.

11. NO SOYBEAN EMBARGO (UNCLASSIFIED)

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EB HAS SENT A CABLE STATING THAT A SOYBEAN EXPORT EMBARGO
IS, IN THE WORDS OF SECRETARY BERGLAND, QUOTE ABSOLUTELY
NOT BEING CONSIDERED UNQUOTE.

12. JAKARTA AND TOKYO: PLEASE PASS TO ASSISTANT SECRETARY
HOLBROOKE AND DEPUTY ASSISTANT SECRETARY HEGINBOTHAM.

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